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C O N F I D E N T I A L SECTION 01 OF 04 LAGOS 000433

SIPDIS

STATE FOR AF/W
STATE FOR CA/OCS/FROBINSON
STATE FOR EB/ESC/IEC/ENR/BLEVINE
STATE FOR DS/IP/AF
STAT FOR INR/AA
STATE PASS DOE FOR DAS JBRODMAN AND CGAY
STATE PASS TREASURY FOR ASEVERENS AND SRENENDER
STATE PASS DOC FOR PHUPER
STATE PASS TRANSPORTATION FOR MARAD
STATE PASS OPIC FOR CDUFFY
STATE PASS TDA FOR BTERNET
STATE PASS EXIM FOR JRICHTER
STATE PASS USTR FOR ASST USTR SLISER
STATE PASS USAID FOR GWEYNAND AND SLAWAETZ

E.O. 12958: DECL: 03/17/2015

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SUBJECT: CHEVRON LOOKS TO ETHNIC COUNCIL MODEL FOR DELTA
REGION COMMUNITY DEVELOPMENT

REF: A. 2004 LAGOS 2446

[B](#). LAGOS 171

[C](#). LAGOS 276

Classified By: Classified By: Consul General Brian L. Browne Reasons
1.4 (D & E)

Summary

[1](#). (C) Chevron Texaco is moving away from the 'host community' paradigm for implementing its community relations and development programs in the Delta region, and instead is embracing state-level 'ethnic councils.' These councils would disburse Chevron community development funds, and be responsible for ensuring incident-free production. However, difficulties in implementing the new model appear to have triggered the February 4 invasion and occupation of Chevron's Escravos facility by the neighboring Ugborodo community. Chevron management believes violence at Escravos could resume at any moment, and the facility remains on essential personnel only status. A consultant to Chevron also requested USG assistance in forming a diplomatic/industry working group to address sectoral policy and security. End Summary

Chevron Considers Host Community Paradigm a Failure

[2](#). (C) Given one-third of Chevron's Nigerian production (140,000 bpd) has remained shut-in in the swamp near Escravos since March 2003, and given a series of invasions of the Escravos facility -- the latest on February 4 -- Chevron management considers its past community development efforts neither successful nor sustainable. As a result, Chevron management is moving away from a strict reading of the 'host community' paradigm the oil industry has traditionally used as the basis for their community relations. Typically, firms sign Memorandums of Understanding (MOUs) with various individual communities where they operate. In exchange for the right to operate in the community, the MOU lays out the benefits the company provides to the local community, such as schools or health clinics. While the host community model has enjoyed some success, broadly it has delivered neither the development demanded by communities, nor the peaceful environment regained by the majors and their service companies to maintain production. Firms operating in Nigeria -- not only Chevron -- are casting around for a new way to do business.

Competition for Host Status Can Enflame Ethnic Tensions

[3](#). (C) The crowning of one community as the 'host,' to the exclusion of near-by communities, often creates a 'winner-take-all' scenario, engendering local jealousy and violence. Competition between competing ethnic groups for territory hosting oil installations, and hence access to host community status (and lucrative MOUs) has erupted into outright warfare on several occasions in Escravos. There have been recurrent battles in Escravos between their host community, the Itsekiri, and their numerically predominant neighbors and rivals, the Ijaw, as disputes over land hosting Chevron facilities. In 2003, during one of several such clashes, the Ijaw swept in to attack the Itsekiri. Several thousand Itsekiri fled to Chevron's Escravos facility to seek the military's protection. Chevron ended up airlifting around

5000 Itsekiri to safety in Warri, where many still remain. Chevron management now recognizes their failure to formulate a regional (rather than local) community relations strategy, incorporating the predominant Ijaw, has made their operating environment more dangerous.

14. (C) Chevron is not alone is having its activities trigger violent competition for territory and host community status; Shell activities triggered a similar incident in February in Bayelsa State. As per reftel c, Shell states it contracted an MOU with the Obioku community in 1998 to carry out operations in their area. When a survey crew recently entered the land, a territorial dispute ensued with the nearby Odioma community. A delegation of twelve local government officials and citizens were killed attempting to mediate the dispute. Shell has been forced to withdraw its team, and has turned to the state and local government to determine which group has rightful claim to the land.

Cash Payments Often Squandered; Energy Firms Vow to Cease Practice

15. (C) Cash payments to the community have also been a source of dispute. The host community -- usually, more specifically, the local chief -- often receives cash payments, ostensibly to support local development activities. Energy executives now acknowledge that payments have in the past been captured by influential members of the community, and squandered on private luxuries. However, stopping cash payments endangers the income stream of a politically powerful group, and the majors' current efforts to stop these payments faces stiff opposition. Chevron is attempting to replace cash payments and donations of "hard" items such as roads, with "soft" programs they consider more sustainable, such as training programs. Chevron is also attempting to gradually move out of provision of basic governmental services, such as roads, health, and education, and put the onus to deliver these goods back on the GON.

Firms Find Managing MOUs is Confusing, Time-consuming

16. (C) With high-stakes competition between communities to be selected as host, and further competition to obtain the best possible MOU, firms find managing the MOU process confusing and time-consuming. Firms contend with multiple splinter groups staking claims to represent the "true community." Martin Hutchison, Managing Director of Brass Liquefied Natural Gas, notes community groups sometimes take a firm to court to force it to exclude competing groups and deal only with it. Communities compare MOUs, with frequent and acrimonious charges that "they got more than we did." Companies with operations in numerous areas also report managing the sheer number of separate MOUs -- often twenty or more -- is a complex and onerous task, dominating their senior managers' time. Dr. Itsuelli, MD of Nigerian firm Dubri Oil, has to negotiate with 65 communities to barge his product to Escravos for processing. Senior managers are increasingly asking themselves if they can continue to spend more time negotiating MOUs than running their operations.

State-wide Ethic Councils to Replace Host Communities; Chevron Hopes for Greater Accountability, Less Violence

17. (C) Disenchanted with the host community model, Chevron management is formulating a new approach, a radical expansion of the host community model, based on statewide 'ethnic councils.' Hamish Macdonald, a Chevron consultant from the British firm MarsOmega explained the ethnic councils would be elected on a statewide basis, with one council representing each major ethnic group in a given state. Chevron would stop negotiating individual MOUs with each host community, and instead negotiate comprehensive agreements with the councils. Chevron General Manager for Asset Management, Chuck Taylor, explained they hope to break the link between possession of land and access to money, and so halt territorial warfare. Instead, all major ethnic groups in a state would have funds to be disbursed by their group's council, regardless of the land they occupy. The councils would be responsible for carrying out the Chevron community development program, and accountable for program results to their constituency. The model introduces a stronger element of community responsibility for controlling violence. Security incidents which halt production will render Chevron assistance agreements void; Chevron management hopes that this will give the community a stake in the company's success and an incentive to self-police.

Disputes Over Interim MOU Triggered February Escravos Invasion

18. (C) Taylor and Macdonald noted crafting a new, more comprehensive MOU has taken Chevron substantially longer than

anticipated. As the Itsekiri community in Ugborodo, near Escravos, has been without an MOU since the 2002 'womens' invasion', Chevron proposed a temporary 'bridging agreement.'

GM Taylor believes there was a positive reaction from the community at large, for the temporary MOU, which provided for a mobile riverine medical clinic, contracts for purchases of fish from the local community, employment for local youth, among other benefits. However, not everyone was satisfied; some members of the Ugborodo community continue call on Chevron to fulfill the 2002 MOUs, and have demanded the recall of Chevron MD Jay Pryor. Finally, conflict over the failed 2002 MOUs and the proposed "bridging MOU" appears to have culminated in the February 4 invasion of the Escravos facility by some members of the Ugborodo community, which resulted in the deaths of at least one community member (ref B).

Motives for Latest Escravos Invasion Debated -
but Facility Remains Under Threat

19. (C) Even within senior Chevron management, there is no one interpretation regarding why the debate over the interim MOU resulted in the February 4 invasion. GM Taylor states the leadership in Warri did not see the benefits in the MOU to which they felt entitled, and so fomented the assault on the Escravos compound. Taylor describes the leaders' stance towards the MOUs as "what's in it for me?," and believes Chevron is witnessing armed resistance to its abandonment of direct cash payments. He describes the Itsekiri leaders as isolated from the community in Ogborodo, and preferring to reside in Warri. However, Chevron Health, Safety, and Environment (HSE) Manager Cheryl Robnett believes the driving force behind the invasion was the return of a critical mass of Itsekiri from Warri to Escravos, subsequent to 2003 Ijaw war. As increasing numbers of Itsekiri return, they have been agitating about Chevron's failure to implement the 2002 MOUs. She notes, however, a succession of conflicts prevented the implementation of the 2002 MOUs. (Chevron now regards the 2002 MOUs as void, due to repeated invasions of their facilities in 2002, 2003, and 2005. Additionally, the 2004 killings of 7 personnel occurred when Chevron was conducting an exploratory visit to consider returning to the swamp areas. Nonetheless, Chevron is considering re-activating some projects stipulated in the 2002 MOUs, on a case-by-case basis.) Finally, Robnett made clear Chevron management believes the violence in Escravos could resume at any moment. The facility remains on essential personnel status, all non-essential personnel having been evacuated soon after the February 4 invasion.

USG Assistance Requested

10. (C) Finally, Macdonald solicited USG assistance in forming a diplomatic/industry working group to address energy sector policy and security issues with the GON. Macdonald believes it is important to recruit the British High Commission and Shell to this effort. Due to Nigerian sensitivities regarding American influence, he stated that the British should be seen as taking the lead in this effort. He requested USG assistance in recruiting Shell and ExxonMobil to such an effort. He stated that Chevron MD Pryor was in full support of efforts to form such an industry group.

Comment

11. (C) Changes in Chevron's community development policies coupled with Nigeria's eventual passage of an Extractive Industries Transparency Initiative (EITI) bill, will likely foster similar change among other major energy operations and service providers. As termination of cash payments becomes an industry standard and eventually law, backlash from local leaders and communities could spread. While prohibiting cash payments supports a host of anti-corruption goals in the long term, it may well prove destabilizing in the short to medium term, as community leaders fight to maintain their incomes. Delta communities with little confidence in oil revenues trickling down from Abuja may also decide a cash payment in the hand (or whatever small portion their leaders pass down), is worth literally fighting for.

12. (C) We would concur with Chevron management's assessment that the host community model has largely failed to provide a framework for energy firms and communities to interact successfully. The February 4 occupation of Chevron's Escravos facility, and recent month-long production halts at both Chevron and Shell - including Shell's declaration of force majeure - underscores the broken condition of the current model. Yet, Chevron is in the early stages of defining an unripe strategy. The state governments' ability to play the role of honest broker between 'ethnic councils' and the energy majors remains dubious. Chevron's proposal for privately financed ethnic councils is a formula which has been tried nowhere else in

the world. It is unclear who would administer the electoral process to seat these council members. Also unclear is who will broker the almost inevitable charges of election fraud. Yet, if successful, this ambitious strategy could radically alter the form of relationships between extractive industries and indigenous peoples of Nigeria.

13. (C) Finally, with the current funding environment, it remains doubtful whether energy firms can ever supply what people in the Delta actually want - functioning, responsive local government; good roads; good schools; and clean water. Community development funds cannot finance these large scale public services. Without tackling this basic public finance challenge, tactical changes by an energy firm are not likely to have much long-term impact.

BROWNE